HOUSING MARKET OUTLOOK
Québec CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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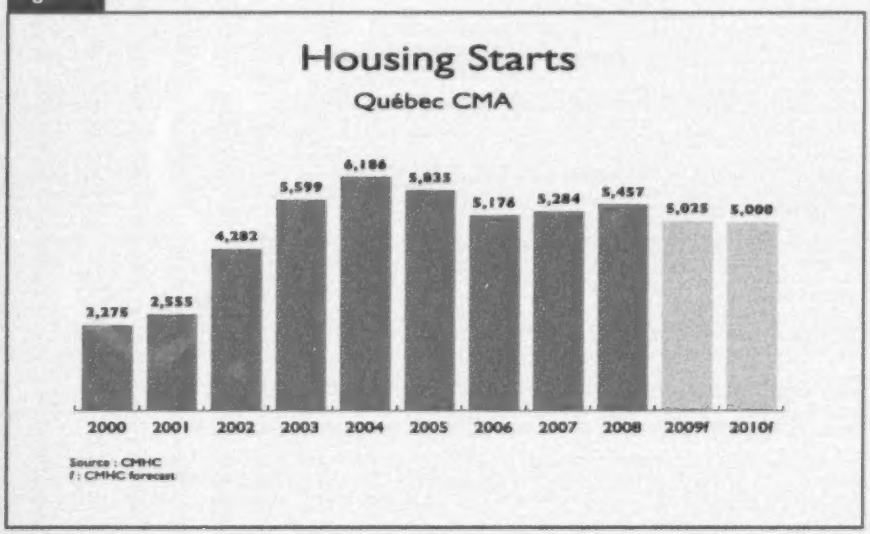
Economy: labour market holding up and helping to support housing demand[1]

The Québec census metropolitan area (CMA) stayed the course at the beginning of the year, as the labour market there continued to grow. After the first six months of the year, the job market in the CMA was on the rise and, as such, stood out from the other five metropolitan areas across Quebec, where employment was down. Several sectors enjoyed growth, including construction, finance, and insurance and real estate.

The third quarter results, however, revealed a very different picture

Figure 1



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[1] The forecasts included in this document are based on information available as of October 1, 2009

of the job market. In fact, the area is facing a decline in employment. In addition, it was full-time jobs that recorded a marked drop (-3.6 per cent). Several sectors were affected by the slowdown: public administration, professional, scientific and technical services, transportation and storage, and accommodation and food services. In 2009, the job market should show stable results in the CMA. The employment level will therefore be similar to that observed in 2008. As well, the unemployment rate should rise to about 5 per cent, which is still be a historically low level, comparable to the rate registered in 2007.

In 2010, the North American economic recovery will favour the CMA, as the regional labour market should post renewed, although moderate, growth (+0.5 per cent). The solid job market, combined with the low mortgage rates, will therefore continue to fuel housing demand.

Demographics: migration to stay strong and population aging to affect market trends

The good economic performance of the CMA in recent years has stimulated the arrival of new residents to the area. In 2007/2008, net migration reached 4,351 people, representing the second highest level in the last 15 years. In 2009 and 2010, net migration will stay at around 4,000 people, thanks to the continued favourable job market conditions. These population movements to the area are helping to support activity on the housing market.

The economic growth of recent years also accelerated access to homeownership, and a growing share of households are homeowners. Over the coming years, the aging of the population will be a major factor affecting housing market trends. In fact, the demographic projections for the CMA call mainly for the formation of households where the primary maintainer is aged from 55 to 74 years. These are the households who will account for a significant share of the market over the years to come. The new home market, as well as the condominium and rental housing segments, should be meeting a large part of the needs and choices of these households.

Figure 2

Mortgage rates

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

Mortgage rates have fallen over the course of 2009, but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

Resale market activity to remain steady

After having reached a peak in 2007, resale market activity declined slightly in 2008, as MLS® sales fell by 1.5 per cent. At the end of the first eight months of the year, the transactions volume was still high, despite a drop of 3.5 per cent. The low mortgage rates are supporting demand, while supply remains limited, with relatively few active listings. This is keeping more pressure on buyers than on sellers. In

fact, the seller-to-buyer ratio remains low, at 5.1 to 1, which is 3 to 5 points below the range reflecting a balanced market (between 8 and 10 sellers per buyer). In 2009, MLS® sales should attain 7,450 units in the CMA, which is 5 per cent fewer than in 2008 but comparable to the average for the last eight years. For 2010, the anticipated recovery of the economy and the job market will favour a rise in sales. Activity should therefore pick up the pace, and total transactions should increase by 3 per cent in 2010.

With the market staying tight, prices continued to grow in 2009. For the period from January to August, the average price of homes went up by 7 per cent year-over-year, on average. However, this increase was less significant than the hike recorded in 2008, when the average price had climbed by 9 per cent. In 2009, this average price will surpass the $200,000 mark in the Québec area, rising by 7 per cent, to $210,000. For 2010, the average price should grow even more slowly and post a gain of 4 per cent, as a result of the anticipated easing of the market. This easing will result from an increase in listings caused by the aging of the population, as the greater number of households with a primary maintainer aged from 55 to 74 years should gradually push up new listings in the CMA. In fact, it is expected that some of these households will opt for other housing types, including new homes, condominiums and rental dwellings.

Residential construction to ease slightly

In the Québec area, the new home market has been very active since 2003. Between 2003 and 2008, 33,537 dwellings were built, and 2008 was the sixth straight year during which the starts volume surpassed the 5,000-unit mark. This year, the results for the first nine months (final data) show a slight decrease in activity in the CMA (-3 per cent). For 2009, it is anticipated that housing starts will reach 5,025 units, down by 8 per cent from 2008. All three market segments will register decreases, as there will be fewer starts of freehold homes[2] (-9 per cent), condominiums (-4 per cent) and rental housing units (-10 per cent). In 2010, the decline will be less marked, since the job market should post a small gain, and starts will attain 5,000 units, for a slight decrease of 0.5 per cent from 2009.

The downward trend in single-detached home construction that began in 2005 will continue in 2009 and 2010. Land prices in the area remain on the rise and are putting upward pressure on new home prices. The New Housing Price Index is rising and, more particularly, the land component of this index, which shows a hike of 38 per cent, on average, in land prices between 2005 and 2008. The data for the first eight months of this year, for their part, indicate an 18-per-cent increase in land prices in the area, over the same period in 2008. Several factors explain these increases, including the limited availability of lots and greater requirements on the part of municipalities with regard to the infrastructure to be put in place and to the regulations to be met in housing developments. The impact of these hikes is being felt on the market, and single-detached houses are less and less popular. In 2009, housing starts will be on the decline (-15 per cent). For 2010, a less pronounced decrease is anticipated, thanks to the recovery of the job market and the increase in the formation of older households. These households correspond to the profile of "second-time home buyers," who are better off and likely to opt for a new single-detached house. Another impact is also being felt on the market, as semi-detached houses are gaining in popularity. In fact, the construction of homes of this type is up by 21 per cent for the first nine months of this year. In 2009 and 2010, starts of semi-detached homes should rise thanks to their greater affordability. The data for the first eight months of this year show average prices of $180,508 for semi-detached houses (+6 per cent) and $292,676 for single-detached homes (+15 per cent). However, it should be noted that the share of new upscale single-detached houses ($400,000 or more) out of all starts in the area is steadily growing, having risen from 4 per cent in 2005 to 16 per cent in 2009.

[2] Freehold homes refer to dwellings where the owner also holds the title of ownership to the land (single-detached, semi-detached and row houses, as well as duplexes).

Condominiums also remain popular for two reasons: their affordability and their features that meet the needs of an increasingly aging population. They are therefore in line with the expectations of households with a "first-time home buyer" profile, as well as those of older households who seek homes requiring less maintenance. In addition, condominiums contribute to the intensification of the area—an objective pursued by the City of Québec. Condominium starts are up by 7 per cent for the first nine months of this year. They will stay above the 1,100-unit mark in 2009 and edge down to 1,000 units in 2010. Some interesting changes have been noted on the condominium market, as construction is increasingly shifting to smaller structures (with 4 to 8 units, for example). From 2004 to 2008, 53 per cent of new condominiums were built as part of structures with fewer than 20 units, compared to 38 per cent from 1999 to 2003. Condominiums are effectively changing and will remain in demand over the coming years.

Rental housing construction has remained strong in recent years. However, a more detailed analysis of the rental market shows mixed results, as retirement homes have accounted for most of the rental housing starts in the last two years, while fewer traditional rental housing units were built in the Québec area than in the previous years (2002-2006). Given the very favourable market conditions (low vacancy rate of 0.6 per cent), construction got under way on some major projects this year, and starts will rise markedly both in 2009 and in 2010. Retirement home construction, on the other hand, will be less significant on account of the recent increase in supply and the fact that the senior population will be growing less rapidly in the near future. In 2009, rental housing starts will fall by 10 per cent but will be mainly intended for the traditional rental market. In 2010, rental housing construction will rise by 8 per cent, driven by a continued considerable demand.

Traditional rental market bound to grow

Since the beginning of the current decade, the rental market has been tight in the Québec area. The results of the latest Rental Market Survey conducted by CMHC in the spring of this year confirmed the tight market conditions, revealing a vacancy rate of 0.6 per cent in the CMA. Consequently, despite the increase in the number of homeowner households, demand for rental housing has remained very strong. The rise in the population and the significant migration to the Québec area helped maintain the need for dwellings of this type. As well, the slowdown in construction also increased the pressure on the market.

The job market will remain dynamic and migration will stay at a high level over the coming years. The rental market will therefore still be tight, despite the increase in rental housing supply. In addition, the characteristics of renter households are changing. In fact, while 22 per cent of renter households had a primary maintainer aged from 55 to 74 years in 2001, this share had risen to nearly 25 per cent in 2006. It should therefore be expected that more and more senior households will enter the rental market over the next few years. This trend will also have impacts on the features sought in rental dwellings.

The average rent for two-bedroom apartments should follow the inflation trend and rise by about 1.5 per cent, both in 2009 and in 2010.

Forecast Summary
Québec CMA
Fall 2009

	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	7,490	7,955	7,838	7,450	-5.0	7,700	3.4
MLS® Active Listings[2] (annual average)	3,550	3,273	3,254	3,400	4.5	3,600	5.9
MLS® Average Price ($)	162,788	180,452	196,839	210,000	6.7	218,000	3.8
New Home Market							
Starts:							
Single-Detached	2,226	2,144	2,031	1,725	-15.1	1,600	-7.2
Multiples	2,950	3,140	3,426	3,300	-3.7	3,400	3.0
Starts - Total	5,176	5,284	5,457	5,025	-7.9	5,000	-0.5
Average Price ($):							
Single-Detached	207,227	236,794	261,871	290,000	10.7	310,000	6.9
New Housing Price Index (% chg.)	5.2	4.0	5.3	7.0	-	5.0	-
Rental Market							
October Vacancy Rate (%)	1.5	1.2	0.6	0.6	-	0.8	-
Two-bedroom Average Rent (October) ($)	637	641	653	663	-	673	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-	3.83	-
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-	5.75	-
Annual Employment Level	376,600	385,700	391,700	391,700	0.0	393,600	0.5
Employment Growth (%)	-0.3	2.4	1.6	0.0	-	0.5	-
Unemployment rate (%)	5.2	5.0	4.5	5.0	-	5.1	-
Net Migration [1]	4,101	4,351	4,000	3,800	-5.0	3,800	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), The Quebec Federation of Real Estate Boards by Centris™ (CMHC compilation).

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2008 migration data are forecasted

(2) Source: QFREB by Centris® as of January 2009

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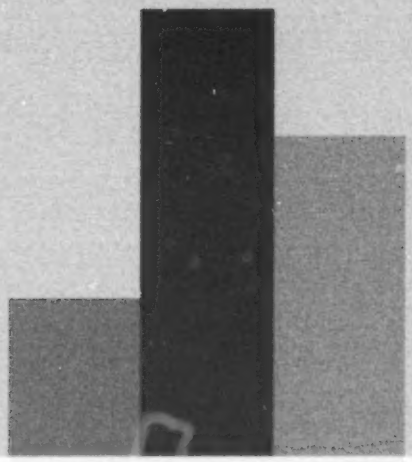

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